



Early Journal Content on JSTOR, Free to Anyone in the World

This article is one of nearly 500,000 scholarly works digitized and made freely available to everyone in the world by JSTOR.

Known as the Early Journal Content, this set of works include research articles, news, letters, and other writings published in more than 200 of the oldest leading academic journals. The works date from the mid-seventeenth to the early twentieth centuries.

We encourage people to read and share the Early Journal Content openly and to tell others that this resource exists. People may post this content online or redistribute in any way for non-commercial purposes.

Read more about Early Journal Content at <http://about.jstor.org/participate-jstor/individuals/early-journal-content>.

JSTOR is a digital library of academic journals, books, and primary source objects. JSTOR helps people discover, use, and build upon a wide range of content through a powerful research and teaching platform, and preserves this content for future generations. JSTOR is part of ITHAKA, a not-for-profit organization that also includes Ithaka S+R and Portico. For more information about JSTOR, please contact support@jstor.org.

CANADIAN RAILWAYS AND THE BONDING QUESTION.

I.

NATURE has bound up the transportation system of Canada with that of the United States. The waterway, extending into the heart of the continent, is common to both countries. The southward dip of boundary allows a portion of the Province of Ontario to project far south, with the result that the most direct line between Michigan and northern New York runs across Ontario. Further north it is found that the most direct communication between the northwestern states and New England is by way of Sault Ste. Marie and across Canadian territory. Then again the Canadian territory occupies a position of advantage in regard to combination lake and rail lines. Through freight between New England points and the northwestern states may be expeditiously and economically handled by railways running across Canada to Georgian Bay points, and thence by boat to its destination. In the portion of Canada lying east of Montreal, the conditions are reversed. The northward trend of the boundary makes the Canadian railway system dependent, in some degree, upon United States territory. The northeastern portion of Maine almost divides New Brunswick from Quebec by an intervening neck of United States territory. The most direct line between Montreal and Maritime Province ports runs through Maine.

From the earliest days there has been an appreciation of this interlocking of the Canadian transportation system with that of the United States, and heated discussion of the matter is not new. In 1827 a railway to connect St. Andrews, N. B., with the city of Quebec was projected.¹ It was not until 1835-6 that the project took definite shape. It at once became an issue in the dispute concerning the Maine boundary. One

¹ *Statistical Yearbook of Canada*, chap. vii. §. 329.

argument urged in favor of the project in 1832 was that it would afford a connection with the railway system which was being developed in the New England states.¹ The Champlain and St. Lawrence Railway, which was chartered in 1832 and completed in 1837, was intended to afford a more speedy connection with New York. On the other hand, we find projects engaged in by the various states which had in view the tapping of the Canadian trade. As early as 1836 the legislature of Maine had considered a project for a railway between Belfast, Maine, and Quebec. In 1839 a railway from Portland to Lake Champlain was surveyed.² At a later date both Maine and Massachusetts were contestants for the Canadian trade. The legislation chartering the Atlantic and St. Lawrence Railway, which was to have its terminus at Portland, Maine, was passed after a keen contest had been waged by the merchants of Portland with the merchants of Boston for the Canadian trade.³

When, in 1836, the Great Western Railway, originally chartered as the London and Gore, applied to the government of Upper Canada for aid, the appeal was favorably reported on by a select committee, which expressed the opinion, that, in addition to developing western Canada, the railway would be in a position to tap the trade of the western states, thereby bettering the condition of the road.⁴ At a later date the importance of the American traffic is recognized in the reports of the Northern Railway.⁵ From the outset it was the intention of this line to obtain a share in the American freight and passenger traffic.

In the Maritime Provinces a similar attitude toward American traffic manifested itself. When the dispute with reference to the northeastern boundary arose, the Quebec and St. Andrews

¹ FLEMING, *The Intercolonial*, p. 6.

² POOR, *Life and Letters*, pp. 26-27.

³ *Ibid.*, pp. 31-56.

⁴ *Journals of the House of Assembly, Upper Canada*, 1836-7, pp. 296, 297.

⁵ *Reports of the Chief Engineer to the Directors of the Ontario, Simcoe, and Huron Railway*, 1852, p. 14; 1854, pp. 22-26; 1858, p. 5; 1862, p. 15.

project was pushed to one side, Attention was turned to the Halifax and Quebec Railway. An imperial officer was designated to survey the route. In reporting favorably on the proposed route, he indicated as one source of revenue the traffic to be obtained from the western states around Lakes Huron, Michigan, and Superior.¹ It was thought that a more friendly feeling existed between the western states and Canada than between the eastern states and Canada, and that this would tend, notwithstanding the competition of the American railways, to bring the western traffic to Halifax.²

The east-bound traffic was considered the most important. The desire for a participation in the export trade appears also in connection with the development of the canal system of Canada. The canals, at least those to which aid was extended by England, were primarily of military importance. We find, however, as early as 1820, a statement that the construction of an adequate system of canals would, in addition to the advantages obtained by Canadian trade therefrom, give Canada the control of the lake traffic.³ The beginnings of the railroad development in the United States threatened the fortunes of the Canadian canals, and it was claimed that these railways would take the traffic which it had been expected would, by means of the canal system, go to Quebec.⁴ The trade policy of England, prior to 1846, had been intended to divert American traffic to Quebec. The Canada Corn Bill of 1843 permitted American wheat to be shipped to England, if it had come through Canada, as if it had originated in Canada; it thereby obtained the advantage of the

¹ MAJOR ROBINSON'S *Report*, 1848, p. 22. *Brochures Canadiennes*, 582, 583. See collection in the Parliamentary Library, Ottawa.

² CAPTAIN J. M. LAWS' *The Colonization of British America*, London, 1848, p. 23. The statement referred to is from the evidence of Mr. J. B. Uniacke, of Nova Scotia, before the Select Committee of the House of Lords on Colonization from Ireland. "Canadian Papers" in the Parliamentary Library collection; 117, 118.

³ Letter of Lieutenant-colonel By to General Mann, Montreal, July 13th, 1820. The letter will be found in the report of the Dominion Archivist for 1891, p. 70.

⁴ Correspondence of *Nielson's Gazette*, quoted in the *Montreal Gazette*, January 21, 1830.

preferential duty.¹ The change in the trade policy of England overthrew the system which had been thus built up. At the same time the energetic railway construction of the United States was threatening to cut into the distinctively Canadian carrying trade. These conditions led to a vital change in the Canadian railway policy; an energetic subsidy policy was the outcome.² This new policy, which was entered upon with the intention of bringing about a rapid development of Canada, brought, of necessity, the expanding transportation system into closer contact with the transportation system of the United States and the traffic of that country, and it was out of these conditions that the bonding system as it now exists, grew up.

II.

The first formal recognition of the close interrelation of the transportation interests of the two countries appears in the treaty of 1794 which provides for a domestic transit trade, the goods carried over the portages on either side of the boundary being free of duty.³ The question became of a somewhat wider interest when the railway development in the two countries began. New England was interested in obtaining the trade of the Canadas; and it was desirous of having its ports accepted as ports for foreign shipments. The Canadas were interested in obtaining winter ports which would be available when the St. Lawrence was closed. As early as 1836 a petition was presented to the assembly of Upper Canada, by the Board of Trade of Toronto, asking that the Imperial government should be requested to exercise its good offices with the government at Washington

¹HON. A. T. GALT, Finance Minister of Canada, *Canada 1849-1859* (London, 1860), p. 25. When the bill was introduced into the English Parliament in 1843 its objects were stated to be "to encourage the internal navigation of the lakes and rivers . . . by diverting into that channel . . . the surplus growth of the western states. . . ." *London Economist*, December 13, 1845.

²*Hincks' Reminiscences*, pp. 201 and 314; DENT, *Last Forty Years of Canada*, pp. 230, 231; GALT, *Canada 1849-1859 passim*: see also article in *London Economist*, October 6, 1860, "Railway Enterprise in Canada."

³*Treaty of 1794*, Article 3.

with a view to obtaining the admission into the province, of British manufactures, through the United States, duty free.¹ No change in this direction was made for some time. The existing policy forced the produce of Upper Canada down the St. Lawrence route; and the export trade of the Canadas centered in Montreal and in Quebec.² The abolition of the protectionist system of England and the rescinding of the preferential duties which the Canadas had enjoyed turned the attention of Montreal and Quebec to the advantage of obtaining a closer connection with the transportation system of the United States. About the same time by an extension of the warehouse system a rearrangement of the transportation interests of the two countries was effected. Two provisions of the tariff legislation of this year bear on this matter. Goods which were the product of the United States, and which had been exported to a foreign country and had been brought back to the United States in the same condition as when exported, if no drawback or bounty had been allowed, were to be admitted duty free.³ When the owner of the goods gave sufficient security that the goods would be landed out of the jurisdiction of the United States the collector was to permit them to be shipped for re-exportation free of duty.⁴ Under these two provisions the custom grew up of regarding cars loaded with commodities, entered at United States' ports, and destined for Canada as forming an extension of the warehousing system.⁵

¹ *Journals House of Assembly, Upper Canada*, 1836, p. 58. This petition was signed by seventy members of the Board of Trade of Toronto. It was stated that under such a system heavy stocks of goods would not be required; since the stock could be replenished at any time.

² *Letter of* HON. JOHN YOUNG, *on Canadian Trade and Navigation, to the Commissioner of Public Works*, p. 3, Montreal, 1855. Canadian Pamphlet collection.

³ Schedule E Tariff Act of 1846. See also *Ex. Doc.* XXXVIII Congress, second session. *Letter from the Secretary of the Treasury in response to enquiry concerning the transit trade.*

⁴ Warehousing Act of 1846. *Senate Document*, vol. ix. No. 219, LIV Congress, first session, Tariff Acts, p. 139.

⁵ See in this connection evidence of Mr. Joseph Nimmo before the Senate Committee on Relation with Canada, *Senate Report*, LI Congress, first session, vol. x. Report

This arrangement was based on mutual advantage. At this time the Canadas had only 54 miles of railway.¹ They were now enabled to take advantage of the railway system of the United States. The United States, on the other hand obtained, for the products of the western states, an alternate route via the canals and the St. Lawrence; this exercised a regulative effect on rates. A profit came to the American railways from the handling of the Canadian traffic; the American traffic brought a profit to the Canadian system.

Between 1849 and 1856 the Canadian railway system was increased 1390 miles. A steady increase continued until in 1866 there was a mileage of 2278. The bulk of the mileage was included in the Grand Trunk, opened in 1859, the Great Western, opened in 1854, and the Northern, opened in 1855. These lines included 1825 miles; the remainder was divided among ten small lines.² This extension brought up another phase of the bonding question—the domestic transit trade, as distinguished from the foreign transit trade.

The project for a through railway line of communication between Quebec and western Canada had been before the public since 1830.³ The Grand Trunk project was the outcome of the long, and at first unsuccessful, negotiations connected with the Halifax and Quebec railway. The country aided the railway in order to secure national development⁴—the expanding system, in the pursuit of its interests, came in contact with United States traffic.

In 1854 the Grand Trunk favored a western extension with a view to obtaining a share in the transportation of the breadstuffs of Michigan, Iowa, Wisconsin, and northern Illinois. It was 1530, part 1, p. 898. See YOUNG, *loc cit.* It is doubtful when this extension of the warehouse system was made. Nimmo says 1848; Young, 1849; and the Interstate Commerce Commission, 1847. *Interstate Commerce Commission Report*, vol. i, p. 57.

¹ See *Report of the Department of Railways and Canals*, 1897, part 6, p. 3.

² *Sessional Papers of Canada*, 1868, No. 73.

³ E.g., letter of MR. PETER FLEMING, C. E. in the *Montreal Gazette*, December 13 1830.

⁴ See preamble of the guarantee act, *Statutes of Canada*, 1849, chap. 29.

urged that the directness of the route and the fewer number of handlings would attract business.¹ The Northern Railway looked, as early as 1852, to obtaining a share in the through American freight and passenger business by means of a lake and rail route. By 1857 it had made large investments with a view to participating in this traffic.²

The warehousing act of 1854³ extended the provisions of the act of 1846, by stating that goods duly entered for warehousing might be conveyed over any foreign territory the government of which had, under treaty stipulations, granted a free right of way over such territory.⁴ This was construed in 1855 to cover the domestic transit trade. The custom grew up under treasury regulations.

The policy of the Canadian Government was not, however, so arranged as to take full advantage of this. In deciding on an official gauge one of five feet six inches had been chosen.⁵ Although there was at the time a lack of uniformity in the gauges of the United States, yet in those parts in which there was the greatest commercial development and which came the most closely in contact with the Canadian system the 4 ft. 8½ in. gauge was most favored.⁶ This divergent choice of gauge

¹ Manager's Report for 1854. See also *Memorial of the Grand Trunk to the Governor General*, March 20, 1857.

² *Report of the Chief Engineer*, 1852, p. 14. *Report* for 1858, p. 5. The expenditures on this account led to the suspension of the company in 1857.

³ Section 5.

⁴ *Executive Document No. 28*, XXXVIII Congress, second session.

⁵ *Sessional Papers of Canada*, 1851, Appendix U. Before 1851 but little attention had been paid to the question by legislators. The Montreal and Champlain had a 5 ft. 6 in. gauge. The charter of the St. Lawrence and Atlantic had been amended so as to provide for a 4 ft. 6 in. gauge. But the company represented that considerable construction had been carried on on a 5 ft. 6 in. gauge and that it would entail loss to make the change. This probably determined the choice of the standard. See in this connection a letter from Sir A. T. Galt to the chairman of the North American Colonial committee on the St. Lawrence and Atlantic Railway, etc., p. 22, "Canadian Papers" in the Parliamentary Library collection.

⁶ Interesting details with reference to the 4 ft. 8½ in. gauge will be found in *Our Railways* by JOSEPH PARSLÖE, p. 84 and PENNINGTON, *Railways and Other Ways*, pp. 83, 84. This gauge was recommended as the standard by an English Commis-

took place in spite of an earlier recommendation of the English Government that in determining on a gauge Canada should not overlook that most favored in the United States.¹ The choice made clearly indicates that the importance of the through traffic was not appreciated by the Canadian legislators. When the Great Western was in financial difficulties it obtained aid from American capitalists on the condition that its gauge should be assimilated to the American standard. The Government at once interposed an objection.² The Railway therefore had to have recourse to the cumbrous expedient of laying down a third rail. It was not until the seventies that the Grand Trunk rearranged its gauge on the 4 ft. 8.5 in. basis, which is now the Canadian standard.

From 1855 to 1866 the bonding system depended simply on Treasury regulations. In the latter year the transit trade was given a legal status.³ Goods destined for Canadian consumption, entered at United States ports to be designated by the Secretary of the Treasury, might be conveyed through United States territory without payment of duty under such rules as were prescribed by the Secretary of the Treasury.⁴ The statute provided for an import transit trade not for the export transit trade. The domestic transit trade was also legalized; it was to be subject to the supervision, in regard to routes, of the Secretary of the Treasury.⁵ By implication the Treaty of 1794, which had provided that goods might be brought into the Canadas from the "United States subject to no higher, or other duties than would be payable by His Majesty's subjects on the

sion of 1846 — see *Annual Register*, 1846, pp. 436-452. It had been the gauge of the old tramways hence the favor shown it. In the United States its acceptance was more or less accidental. For a time Ohio had a 4 ft. 10 in. gauge; this was owing to the fact that the first railroad happened to buy a locomotive of that gauge.

¹ This is contained in a despatch from Earl Gray to the Governor-General in 1847. See *Sessional Papers of Canada*, 1851, Appendix D.D.D.

² *Hincks' Reminiscences*, p. 220.

³ *United States Revised Statutes*, §§ 3005, 3006, chap. 284.

⁴ *Ibid.*, loc. cit.

⁵ *Ibid.*, loc. cit.

importation of the same from Europe into the said territories " coupled with a like provision in favor of goods brought into the United States from Canada, would seem to have already recognized one phase of the foreign transit trade.¹

The next phase of the legal history of the bonding question arises in connection with the twenty-ninth and thirtieth articles of the Treaty of Washington. Under the former of these provisions, goods for Canadian consumption, entered at United States ports, may be carried through United States territory free of duty. A reciprocal privilege was granted by Canada. Provision was also made for the domestic transit trade from one point in the United States to another point in the United States through Canadian territory. Article 30 provided for the carriage, by water and land route, free of duty between one point in the United States and another point in the United States across Canadian territory.

Article 29 states that the privileges above outlined are to exist for the term of years mentioned in Article 33. In the latter article no mention is made of Article 29. In Article 33 it is stated that Articles 18 to 25 inclusive and Article 30 are to take effect after the requisite laws have been passed by the parties to the Treaty; and they are to continue thereafter for a term of ten years, and in addition for two years after the giving of notice of the desire of either of the contracting parties to terminate these articles.

The sections mentioned in Article 33 were terminated in 1885 under notice given by the President of the United States. President Cleveland was of opinion in 1888 that this also rescinded Article 29.² But since this article is not referred to in Article 33, it would seem that if the phrase in the former article, "the term of years mentioned in Article 33," is to have application to it, the section must be specifically denounced. Mr. Cleveland's doctrine of denunciation by implication does

¹Treaty of 1794, Article 3.

²See Message of President Cleveland, August 23, 1888. RICHARDSON, *Messages and Papers*, vol. viii. p. 625.

not, in terms of the Treaty, seem valid. The discussions in the senate on the joint resolution for the denunciation of the articles already referred to show that it was understood that Article 29 would not be affected by the proposed changes.¹ The resolution itself did not mention Article 29.² At the same time it declared that section three of the act of 1873 "passed to carry into effect the provisions of the Treaty between the United States and Great Britain," should, in so far as it related to the articles mentioned, be repealed.³ President Cleveland was not quite certain, apparently, whether this section so repealed did affect Article 29,⁴ and he placed his main reliance upon the proceedings in connection with the abrogation of the articles referred to.

The obvious intention of the joint resolution was to terminate only the clauses specifically mentioned. An abrogation of Article 29 by implication is aside from the question. As the article, then, has not been denounced it is still of treaty obligation.⁵ In further proof of this contention reference may be made to the fact that, in practice, the treasury has regarded Article 29 as still in force, and Canada has regarded its obligations under it as still binding.⁶

Article 30 was abrogated by the action of 1883. The domestic transit trade and the foreign transit trade are in

¹ *Congressional Record*, vol. xiv. part 4, p. 3056. See statements of Senators Edmunds, Frye and Windom.

² Message of President Harrison, February 22, 1893. RICHARDSON, *Messages and Papers*, vol. ix. p. 339.

³ *Ibid.*, *loc. cit.*

⁴ Message of President Cleveland, *loc. cit.*

⁵ The opinions expressed in the messages referred to are at variance with the position I have taken. Pages 623-626 of President Cleveland's Message, and pages 335-340 of President Harrison's Message contain the points in favor of the contention that the section is abrogated. The divergency of argumentation shown in these citations will evidence the lack of strict logical foundation for the doctrine of abrogation by implication.

⁶ Message of President Harrison, *loc. cit.*

general covered by section 29.¹ But the form of transit trade provided for under section 30, is dependent now on legislative enactment.²

III.

The Canadian transportation systems most directly interested in the carriage of United States traffic are the Canadian Pacific, the Grand Trunk, and the Canada Atlantic and Parry Sound system. The Canadian Pacific has as its eastern terminus St. John, New Brunswick, and as its western terminus Vancouver. The leading points at which it connects with American lines are Newport, Vermont, Ogdensburg, Detroit, Sault Ste Marie, Emerson, and Seattle. The Grand Trunk Railway extends from Portland, Maine, to Chicago. Its most important connecting points with American lines are at Portland, Maine, St. Johns, Quebec, Rouse's Point, Suspension Bridge, Buffalo, and Detroit. The Canada Atlantic and Parry Sound system, which only began active operations last year, comprises the Canada Atlantic and the Ottawa Arnprior and Parry Sound lines, which are under one management. The eastern terminus is at Coteau, near Montreal.³ The road has running rights into Montreal over the Grand Trunk tracks. The water route is also available in summer time. The western terminus is at Depot Harbor, near Parry Sound, on Georgian Bay. Thence connection is made by boat with Milwaukee, Chicago, and Duluth.

The bonded trade comprises the foreign transit trade and the domestic transit trade. The data with reference to the domestic transit trade have not, until recent years, been differentiated from the ordinary domestic trade. The statistics for the eastern

¹ It is to be noted that the domestic transit trade provided for under this section does not cover the carriage of goods from one point in Canada to another point in Canada through United States territory. For an opinion differing from that advanced above with reference to the legal basis of the bonding system, see a letter on the Bonding Privilege, in the *Toronto Globe*, January 23, 1897.

² Sections 3005 and 3006 of the *United States Revised Statutes*.

³ Projects for obtaining a through connection between Coteau and Quebec, and for the maintenance of an all winter service between Parry Sound and American lake ports are under consideration.

foreign transit trade are exact; the statistics for the western transit trade are incomplete. The eastern foreign transit trade is concerned with the exports and imports, in bond, of Canada; the western with the importations of the United States from, and its exports to Asiatic countries, via the Canadian Pacific railroad. The foreign transit trade is the important matter to Canada; the domestic to the United States. Even the inadequate statistics available indicate that the domestic transit trade is of much greater value than the foreign transit trade.

Of the imports and exports through United States territory into and from Canada, approximately 90 per cent. are attributable to Ontario, Quebec, and the Northwest, the remainder being divided between the Maritime Provinces and British Columbia, roughly in the proportion of two to one. In the export trade the more important United States customs districts are, for the Maritime Provinces; Bangor, Passamaquoddy, New York, and Boston: for Ontario, Quebec and the Northwest; Vermont, Niagara, Champlain, and Huron: for British Columbia; San Francisco, and Puget Sound. In the import trade the important

IMPORTS AND EXPORTS THROUGH THE PORTS OF THE UNITED STATES INTO AND FROM THE DOMINION OF CANADA.¹

Date	Imports	Exports	Date	Imports	Exports
1868.....	\$14,375,419	\$4,864,289	1884.....	\$22,939,385	\$13,414,036
1869.....	15,033,821	5,852,678	1885.....	19,219,825	13,522,832
1870.....	16,689,037	7,215,973	1886.....	20,200,000	10,854,846
1871.....	18,406,475	7,954,060	1887.....	22,187,885	11,504,721
1872.....	24,042,790	9,276,169	1888.....	15,610,519	8,315,683
1873.....	26,784,184	13,394,693	1889.....	22,144,271	11,296,270
1874.....	27,310,739	14,163,690	1890.....	27,330,514	15,827,326
1875.....	29,800,299	18,942,577	1891.....	27,848,750	19,592,730
1876.....	24,418,751	22,591,808	1892.....	26,797,152	23,600,139
1877.....	18,977,153	12,469,220	1893.....	22,693,822	17,503,587
1878.....	12,912,630	12,203,124	1894.....	20,175,576	17,068,626
1879.....	12,889,532	12,078,748	1895.....	21,714,450	19,385,447
1880.....	17,402,103	17,134,459	1896.....	21,786,648	19,739,585
1881.....	23,356,264	17,001,713	1897.....	24,226,538	20,056,546
1882.....	37,595,397	28,541,988	1898.....	26,231,391	38,781,278
1883.....	39,312,543	29,795,485			

¹ See *Foreign Commerce and Navigation Reports* of the United States.

districts for the Maritime Provinces are Vermont and Boston : for Quebec, Ontario, and the Northwest ; New York, Portland and Boston : and for British Columbia ; Huron, Duluth, and San Francisco.

Statistics for a complete analysis of the domestic transit trade do not exist. The statistics for the domestic transit trade of the United States for the last few years are available ; the statistics for the Canadian domestic transit trade have not been kept. Although this latter trade is of considerable advantage to the Canadian shipper, it is of much smaller proportions than the American domestic transit trade. This latter trade includes tonnage from practically all the various lines of industry in the United States ; and all the states are interested in it.¹ The leading ports through which the tonnage concerned in this trade pass are Port Huron, Mich., Detroit, Mich., Suspension Bridge, N. Y., and Buffalo,² N. Y. The following table presents the data pertaining to this trade for the period 1894-1897 :

Year	Number of cars	Weight of contents in tons
1894	425,809	7,847,058
1895	430,678	8,068,512
1896	430,049	5,964,405
1897	443,875	5,351,350

Another detail in connection with the transit trade is concerned with the lake and rail routes. These are of increasing importance. The system began in 1867. In that year grain was shipped from the West to lake ports on Lake Huron and thence by the Grand Trunk to Montreal.³ The most important advance in this connection took place last year when the Parry Sound system was opened. This line carried approximately 11 million bushels of grain eastward during its first season.⁴

¹ See *Department Circular No. 37*, of the United States Treasury Department, Division of Special Agents, 1898.

² *Ibid.*

³ "Transportation Routes to the Seaboard," p. 23. S. R., XLIII Congress, first session, Report 307.

⁴ This system has been so recently opened that it is impossible to judge with exactness what its participation in the transit trade will be when it is in full operation.

The trade via the Canadian canals is aside from the direct object of this paper, but it may be noted that the state-to-state trade, via the Welland Canal, amounts on the average to 500,000 tons per annum.¹

During the period 1891–1895 the data with reference to the participation in American freight traffic by the Grand Trunk are as follows²:

THROUGH AMERICAN FREIGHT.

Date	American freight	Total freight	Percentage of total freight
1891	2,645,317	8,775,000	30.1
1892	2,875,707	9,023,278	31.8
1893	2,685,805	8,677,933	30.9
1894	2,410,327	8,115,095	29.7
1895	2,385,913	8,394,104	27.6

It would appear fair to assume that approximately 30 per cent. of the total freight traffic of the Grand Trunk is concerned with state-to-state traffic.³ In an attempt to estimate what this traffic meant to the Grand Trunk, there is a difficulty. The rates on through American freight are much lower than the rates on local traffic. But the rates are not kept separately. The average rate received per ton may be applied to the American freight; but it must be remembered that this will be an overestimate. Subject to such limitation it will be found that

It has been claimed that it will carry 50 million bushels of grain during this season. The bulk of the grain traffic of this system will be American. This line carries approximately 250,000 tons eastbound and 150,000 tons westbound American freight.

¹ *Annual Report of the Department of Railways and Canals*, Canada, 1897; "Canal Statistics," part 5, p. 37. A table is given covering the trade since 1869.

² In the period since June 1896, the Grand Trunk reports do not differentiate American from other tonnage.

³ I am informed, through correspondence with the officials of the Grand Trunk, that the returns are not now so kept as to show what proportion the American freight bears to the total freight. A letter in the *Toronto Globe* of October 29, 1898, states that the Grand Trunk, during the year 1897, carried in round numbers three million tons of American freight. I have been unable to verify this statement. As the total tonnage of the line during that year was 9,186,206 tons, this would be a fraction under 33.3 per cent.

on the average 28 per cent. of the total receipts from freight are attributable to American freight.¹ It is impossible to say what proportion of the passenger traffic, or of the receipts from the passenger traffic, is attributable to American passenger traffic.

The Grand Trunk became at an early date a competitor for the live stock trade. The dressed beef trade was built up through its activity. The other lines were desirous of encouraging the live stock trade and discriminated against dressed beef shipments.² The struggle in connection with this trade was especially keen during the period 1874-1877. Conditions were more stable by the period 1879-80 when the Grand Trunk was establishing an independent connection with Chicago. During the period 1883 to 1892, 15 per cent. of this traffic was carried over the Chicago and Grand Trunk.³ At present it carries about 20 per cent. of this trade.⁴ The proportions carried by the different lines have been subject to sharp fluctuations. During the period 1883 to 1892 it carried 14 per cent. of the east-bound dead freight; since then its proportion has decreased until now it stands at 10 per cent. It carries 13 per cent. of the aggregate tonnage east-bound from Chicago. It stands third on the list, being exceeded by the Lake Shore and the Michigan Central.

¹ Year	Ton rate	American freight receipts	Total freight receipts	Percentage of receipts
1891	\$1.45	\$3,635,785	\$12,003,304	30.2
1892	1.29	3,709,662	12,784,246	29.3
1893	1.37	3,652,144	12,806,006	30.4
1894	1.37	3,302,148	11,326,167	29.0
1895	1.32	3,149,485	11,398,059	27.6
1896	1.36	3,924,000	12,906,740	28.6
1897	1.38	3,924,000	13,632,686	28.7

For 1896 the American tonnage is estimated at 30 per cent. of the total tonnage. In 1897 the American tonnage is taken as three million tons, for the reason indicated in the preceding footnote.

² Evidence of Mr. G. F. Stone, Secretary of the Chicago Board of Trade, before the committee on Transportation Interests of the United States and Canada, p. 606.

³ This, although part of the Grand Trunk system, is separately organized.

⁴ The detailed figures upon which these statements are based will be found in the reports of the Chicago Board of Trade for the years in question.

In obtaining east-bound tonnage the Grand Trunk acts simply as a link in the American railway system. A consideration of the following table¹ will substantiate this statement :

Date	Chicago and Grand Trunk. east-bound.	Grand Trunk. east-bound.
1891	447,047 tons.	1,905,162 tons.
1892	421,632 “	2,035,316 “
1893	353,320 “	1,914,154 “
1894	359,861 “	1,739,396 “
1895	408,234 “	1,677,485 “

It will be seen that the amount of east-bound freight furnished by the Chicago and Grand Trunk is only from one fourth to one fifth of the total east-bound American freight carried by the Grand Trunk. For the remainder it is dependent upon western roads independent of its system. It also forms a link in a chain of connection, via Buffalo, with the eastern states. At least 75 per cent. of the Chicago and Grand Trunk traffic is forwarded via Buffalo.²

The interest of the Canadian Pacific in the domestic transit trade is of minor importance. During the year 1897 it handled in all 350,606 tons of interstate traffic. The gross revenue from this source was \$1,356,795.³ In other words the interstate traffic amounted to 6.7 per cent. of its total tonnage, while the gross income therefrom amounted to 8.8 per cent. of its freight income. It is impossible to treat the question of the participation of this line in the foreign transit trade with any precision owing to the lack of exact statistics.⁴ The figures contained in the Report

¹The data for the Chicago & Grand Trunk tonnage are obtained from the Chicago Board of Trade reports. The Grand Trunk reports, as has already been stated, do not, since June 1896, distinguish American from other freight.

²*Competition of Canadian Carriers*, p. 300. Appendix E, *Interstate Commerce Commission Reports*, vol. vi.

³I am indebted to Mr. Shaughnessy, vice president of the Canadian Pacific railway for this information.

⁴Neither the statements of the Bureau of Statistics of the Treasury Department, nor the returns of the Bureau of Foreign Commerce of the State Department, bear upon this point with exactness. The returns of the Bureau of Foreign Commerce with reference to the goods sent on from British Columbia under consular seals are

on Competition of Canadian Carriers cover the period 1887 to 1892. But even these figures are inexact. Since then statements for the traffic by years are not obtainable. During the period 1887 to 1892, on the average, 42 per cent. of the trans-continental tea trade was carried by the Canadian Pacific.¹ The average yearly trade in this commodity by this line was about 20 million pounds. One third of the tea was destined for Canadian points.² During the same period it carried 16 per cent. of the silk trade.³ The report already cited gives the total export of goods from the United States to China and Japan, through British Columbia via the Canadian Pacific, as 24,068,346 pounds in 1892.⁴ Cotton goods and flour are the most important items in the list. The trade in low-priced cottons has been attracted by the low rates granted by the Canadian line. For the recent period all that can be offered is a statement with reference to the trade between Asia and the United States in 1898. The following table presents this in a comparative form:⁵

	1888 Weight in pounds	1898 Weight in pounds	Increase	Decrease
Tea -	14,377,922	4,358,960		10,018,962
Silk - -	650,765	2,079,149	1,428,384	
Other freight	1,783,283	3,963,047	2,179,451	
			3,607,835	
Total -	16,812,283	10,403,156	Net decrease	6,411,127

Owing to the limited scope of this table deductions from it should be made with extreme care. The leading articles con-

incomplete. The returns made to the Interstate Commerce Commission do not bear on the matter. In the reports of the railway itself no distinction is made between American freight and Canadian freight. The commodities imported from Asia are included under the heading of "miscellaneous" in the returns.

¹ *Competition of Canadian Carriers*, p. 294.

² *Ibid.*—According to the comparative statement cited below the estimate of 24,403,661 pounds given in the *Report of Canadian Competition*, for the year 1888, is nearly 10 million pounds in excess of the actual amount of tea carried.

³ *Ibid.*

⁴ *Ibid.*

⁵ I am indebted to Mr. Shaughnessy for the data contained in this table.

cerned in the trade are tea, silk, and rice. The principal article for which there is competition between American and Canadian carriers is tea.¹ It will be seen that, although 1898 was a very prosperous year, the amount of tea carried by the Canadian Pacific had fallen off greatly. The Canadian Pacific carried during this year 7.08 per cent. of the total importations of tea from China and Japan to the United States.² Its carriage of silk amounted to 68.4 per cent. of the total importations of raw silk from China and Japan.³

The Grand Trunk and the Canadian Pacific occupy radically different positions. In great degree the former is part of the American transportation system; while the latter is much more independent. To the argument that the Grand Trunk represents an encroachment upon the legitimate traffic of American lines it may be rejoined that it has, in great degree, built up its trade by devoting greater care, than the competing American lines, to the interests of the shippers.⁴ It has further been indicated that a large proportion of its American traffic is diverted to it by American roads. This is evidence of the fact that the Grand Trunk participation in the business is of advantage to them. As regards the Canadian Pacific there does appear to be more force in the argument. In the import trade from Asia the trade of American roads has to some extent been cut into. But it must be remembered that this is attributable, in great degree, to the advantage of a unified steam and rail route. In this connection the element of distance has also to be considered; the distance from Yokohama to Vancouver is 518 miles shorter than from Yokohama to San Francisco.

¹ Evidence of the Manager of Southern Pacific. *Decisions of the Interstate Commerce Commission*, 1891, vol. iv. p. 476.

² These calculations are based on the returns contained in the *United States Monthly Summary of Trade and Commerce* for December 1898.

³ *Ibid.*

⁴ Cf. Evidence of Mr. George F. Stone, secretary of the Chicago Board of Trade, before the committee on Transportation interests of the United States and Canada, p. 607.

IV.

The discussion of the bonding question has taken on a more acute form since the entrance of the Canadian Pacific into the field. During the last ten or eleven years two points of view have been brought before the public—one that the bonding system should be abrogated, the other that the Canadian roads should be placed under a license system.

The movement for the abrogation of the bonding system has been primarily political. The inception of the movement is attributable to General Wilson of Delaware who hoped thereby to obtain the annexation of Canada.¹ The Canadian Pacific has been singled out for especial animadversion; and the arguments have been of the *delenda est Carthago* type. The opinion that economic pressure would induce Canada to become an integral portion of the American Union has been at the bottom of a good deal of the agitation on the matter. In the discussion, however, the interest of the American shipper in the matter has been left in the background.

When the Canadian Pacific was in process of construction the project was looked on with equanimity. Mr. Nimmo, who has since opposed the participation of this line in the bonding trade, placed himself on record as follows:

It is easy to perceive the possible future relationships which may and probably will spring up between the Canadian Pacific Railway and transportation interests of the United States under the privileges of the transit trade . . . the Canadian and Pacific Railway (may) be expected to become a competitor of the Pacific railroads of the United States for a part of the transcontinental traffic of this country. The Pacific railroads of this country will also become competitors of the Canadian Pacific Railway for the transcontinental traffic of the Dominion of Canada . . . But this competition will undoubtedly be beneficial to the commercial and industrial interest of the two countries.²

In another connection he stated the conviction "that sections

¹ *Senate Committee on Transportation Interests of the United States and Canada*, p. 516, statements of Mr. Raymond of Detroit and of Senator Hiscock.

² Report on Internal Commerce of the United States 1884, *H. R. Ex. Doc.* XLVIII Congress, third session, vol. xx. p. 99.

and branches of that road (the Canadian Pacific) will, in many important ways, tend to promote the commercial, industrial and transportation interests of the United States.”¹

As soon as the line was opened and its energetic management began to attract attention the protests of the American lines were added to the political arguments already referred to.²

The recommendation of President Cleveland in 1888 that the Executive should be empowered to suspend the operation of all laws permitting the transit of goods, wares, and merchandise in bond across the territory of the United States to or from Canada,³ was the outcome not of the disputes concerning the transportation question but of the disputes connected with the fisheries.⁴

President Harrison took up the matter in his annual message in 1892. He expressed the opinion that the Canadian lines were depriving the American lines of their legitimate traffic, and stated that a “consideration of the propriety of a modification or abrogation of the article of the Treaty of Washington relating to the transit of goods in bond is involved in any complete solution of the matter.”⁵ The facilities for customs entry and transportation across United States territory were such as to make the Canadian route a favored one.⁶ A special message on the subject was submitted by him on February 2, 1893.⁷ In this he took the position that there was no legal sanction for the foreign transit trade from Canada through American ports; that all that was provided for was an import trade.⁸ It was suggested, rather than explicitly stated, that the customs regulation might be so manipulated as to deprive the Canadian carrier of the advantages

¹ *Ibid.*, p. 100.

² Mr. Jas. H. Wilson appeared before the Senate Committee on Interstate Commerce in February 1888, and advocated the repeal of the bonding privilege.

³ Message of August 23, 1888. See *Messages and Papers*, vol. viii. p. 633.

⁴ See pp. 620–627 of President Cleveland’s Message, *loc. cit.*

⁵ Fourth Annual Message. *Messages and Papers*, vol. ix. p. 315.

⁶ *Ibid.*, p. 323.

⁷ *Ibid.*, p. 335.

⁸ *Ibid.*, p. 340.

of the bonding system.¹ While the message did not express any opinion upon the expediency of the bonding system² it stated that the advent of the Canadian Pacific necessitated a reconstruction of the policy.³

The famous section 22 of the Dingley Bill was especially directed against the Canadian Pacific. The essential portion of this section states that

a discriminating duty of 10 per cent. *ad valorem* . . . shall be levied . . . on all goods . . . which shall be imported in vessels not of the United States, or which being the production or manufacture of any foreign country not contiguous to the United States shall come into the United States from such contiguous country.⁴

The objection to the participation of the Canadian Pacific in the bonded trade has tended to shade off into a general attack on the bonding system. When the Alaska Land Bill was under consideration, Senator Elkins, who began with an attack on the participation of the Canadian Pacific in the bonding system, veered round to an attack on the whole system of bonding.⁵ In general this line of attack proceeds either from the idea of exerting economic pressure on Canada with a view to political ends, or as a punishment for the sins of Canada in other respects.

Short of the movement for absolute overthrow of the bonding system, a proposition has been made that the Canadian carriers, in so far as they are engaged in the transportation of American produce under the bonding system, should be brought under United States regulation. It has been urged that it is unjust to place the American carriers under the restrictions of

¹ Message of President Harrison, *loc. cit.*, p. 341.

² *Ibid.*, p. 344.

³ *Ibid.*, p. 346.

⁴ In the brief submitted by Mr. J. G. Carlisle and Mr. Chas. S. Hamblin representing the Boston and Maine Railway and the Associated Boards of Trade and Merchants Association of Boston respectively, exception is taken to the section on the ground that the word "from" indicates the country of origin and that the passage of Chinese goods through Canada en route is immaterial since legally they come "from" China, not Canada.

⁵ Speech of March 2, 1898. *Congressional Record*, Appendix, pp. 331-338.

the Interstate Commerce Act while their Canadian competitors are exempt.¹ The complaint presented is threefold—the Canadian routes are exempt from regulation, they do not obey the provisions of the act, there is at present no effective way to control them.

The importance of the Canadian roads in determining through rates is overestimated. It is conceded, even by those who claim that the Canadian roads regulate the east-bound rates, that the important regulator of rates is, as a matter of fact, water competition.² Both the Canadian lines and the American lines are subject to this. The Canadian lines have no independent control over through rates; they have to be determined in competition with the railways of the United States.³

The earlier history of the Grand Trunk before it obtained its Chicago connection shows that the through rates were determined by American competition. The rates received were exceedingly low; the Detroit-Portland rate averaged only .64 cents per ton mile.⁴ The Portland rate was applied to Boston shipments, with the result that the railway carried flour from Detroit to Boston for 70 cents per barrel, and paid the cost of transportation by boat between Portland and Boston. The result of this was a net loss of four and a half cents per barrel.⁵

¹ President Harrison's fourth annual message, *loc. cit.*, p. 314. A large amount of material on this point will be found in the evidence submitted before the Senate Committee on Relations with Canada, and on the Transportation Interests of the United States and Canada.

² Testimony of Mr. George R. Blanchard before the Senate Committee on Interstate Commerce, p. 156—" . . . this parallel foreign carrier (the Grand Trunk) *if water was not present*, would itself regulate through American railway charges to the seaboard." The italics are mine.

³ Evidence of Mr. Baker, manager of the Northern and Northwestern Railway, before the committee on railways, canals and telegraph lines. *Journals of the House of Commons*, Canada, 1883. App. 1, p. 3. See also evidence of Mr. W. H. Lincoln before the Senate Committee on Interstate Commerce, p. 309. See also *Report of the Canadian Royal Commission on Railways*, p. 8.

⁴ See report of the commission to inquire into the affairs of the Grand Trunk Railway, 1861, p. 36.

⁵ *Ibid.* pp. 37-38 and 45.

The Grand Trunk had to meet the rate of the shorter lines. By carrying to Boston, however, even at these low rates, it was enabled to obtain there west-bound traffic which it paid to handle.¹ When the different rate wars broke out the Grand Trunk was subject to all the fluctuations in rates, and as it had a long haul over a road which, during a portion of the time, was in poor repair, the return received from American freight was exceedingly low. The Grand Trunk system is so bound up with the American railway system that its through rates are dependent on it. The granting of differentials on the traffic carried by the Canadian lines is simply part of the general railway policy of the United States, which recognizes the right of a longer line participating in a given traffic to charge a somewhat lower rate than the shorter line. The Canadian Pacific with its "Soo" connections has had a disturbing effect upon rates between the Northwest and the Atlantic seaboard. The "Soo" lines, while not a part of the Canadian Pacific, are closely allied with it; a controlling interest is held by the former system.² Before this connection was obtained the rate from St. Paul to the seaboard had been arranged on the basis of the St. Paul-Chicago rate, plus the rate from Chicago to the seaboard. The lines from St. Paul to Chicago had been constructed on this theory. The contention of the Soo lines, from the outset, has been that they are entitled on account of their geographical advantage to carry goods from the Northwestern states to the seaboard at Chicago rates.³ This, of course, rules the St. Paul-Chicago lines out of consideration.

In the consideration of the policy of the Canadian roads on the question of through rates, special stress will be laid on the

¹ *Ibid.* p. 108, evidence of Mr. Shanly.

² For details concerning their connection with the Canadian Pacific, see VAN OSS, pp. 530-531, the Canadian Pacific annual reports, and the evidence of Mr. Van Horne before the Senate Committee on Transportation Interests of the United States and Canada.

³ In connection with this point see *Seventh Annual Report of the Minneapolis Chamber of Commerce*, p. 191; *Trade and Commerce Report*, Duluth, 1887, p. 27, *Canadian Pacific Report*, 1885, p. 14.

Canadian Pacific, since comparatively little objection is made to the Grand Trunk. The contention that the Canadian roads have been immaculate in the matter of rate cutting is no more tenable than a similar claim would be in regard to American roads. The advent of the Canadian Pacific on the Pacific coast helped in the disarrangement of rates. At first the Canadian Pacific took freight for all eastern points at what it could get.¹ The Interstate Commerce Commission is of the opinion that this was intended to compel the recognition of a differential.² However, it must be remembered that the transcontinental pool had broken up at the beginning of 1886, about six months before the Canadian Pacific appeared as a competitor for through business. Rates were generally disorganized, and the new competitor was simply fighting for its own hand as were the other lines. The trouble was also intensified by an attempt on the part of the other transcontinental lines to obtain British Columbia business by going below the Canadian Pacific rates.³ The matter was put on a more satisfactory footing by the admission of the Canadian Pacific to the Transcontinental Association in 1888. As Mr. Van Horne said, the railway was not carrying trade at such rates for a living. As soon as the transcontinental traffic was put on a stable basis by mutual agreement it was found that the Canadian Pacific was by no means the most aggressive. In the four months ending April 1889, the twenty-two lines in the transcontinental association showed earnings varying from .61 cents to 1.15 cents per ton mile; the earnings of the Canadian Pacific on this traffic amounted to 1.10 cents per ton mile.⁴

The transcontinental lines have complained of the effect of the competition of the Canadian Pacific on their tea trade. This question is rather one of reasonable rates than of rate cutting.

¹Evidence of C. J. Smith, manager of the Oregon Railway and Navigation Company. Senate Committee on Relations with Canada p. 185. Evidence of Mr. Van Horne before the Senate Committee on Transportation Interests of the United States and Canada, p. 241.

²*Interstate Commerce Commission Reports* vol. ii. p. 14.

³VAN HORNE, *Transportation Interests of the United States and Canada*, p. 242.

⁴Statement of Mr. George Olds. Committee on Relations with Canada. p. 492.

The Canadian Pacific regards this through business as standing on a different footing from local business. Its rate from Yokohama to points in the United States is the same regardless of distance; for example the rate from Yokohama to Chicago is the same as the rate from Yokohama to New York via Chicago.¹ The Southern Pacific, which originally charged 5 cents per pound on tea, was reduced to a rate of .61 cents; and was unable to raise its rate.²

The Soo lines have been charged with being the leading offenders in rate cutting. The complaints on this score have been numerous. In 1888, when the all-rail rate via Chicago was \$1.30 first class, the Soo and Canadian Pacific rate was cut to 60 cents; at this time the Chicago seaboard proportion was 75 cents.³ The very careful investigation made by the auditor of the Interstate Commerce Commission shows that in a great many cases there were cuts in the rates between the Northwest and the eastern states via the Soo.⁴

A cut in Soo rates does not, however, of necessity mean a diversion of freight to the Canadian Pacific. A large proportion of the east-bound freight of the Soo is carried to Gladstone and thence by lake to Buffalo.⁵ There is also an all rail connection via Mackinaw.

This whole matter is bound up with the general transportation movement. The disturbances between the rail and the lake and rail lines have to be taken into consideration. The changes in through rates may be the outcome of water competition. If the Soo lines meet such rates they are doing simply what has been done by the lines centering in Chicago. For a portion of the summer of 1898 the all rail grain rate from Chicago to the seaboard was, not openly but as a matter of fact, below

¹ See *Decisions of the Interstate Commerce Commission*, 1891, vol. iv. p. 491.

² *Ibid.*, pp. 478 and 479.

³ *Bradstreet's*, July 7, 1888.

⁴ Interstate Commerce Commission Reports, vol. vi. Appendix E, pp. 275-279.

⁵ The Minneapolis, St. Paul, and Sault Ste. Marie has 175 acres of terminal grounds at Gladstone and also own a line of steamers.

the lake and rail rate. During the period 1887-8 when the Soo lines were attracting attention by their cuts they were also subjected to the competition of the Chicago, Burlington, and Northern which by its actions was disturbing the rate situation in the Northwest.

In connection with the matter of through shipments it must also be remembered that the shipments over the Soo and Canadian Pacific have the advantage of being handled by a system which is practically under one management. During 1896 the roads east of Chicago and St. Paul bound themselves not to prorate with western roads except on a mileage basis. The western roads desired special rates, and a deadlock arose. In the meantime the Canadian Pacific carried nearly all the wool clip from the Northwest to the seaboard. The Soo-Pacific system deals with through rates. The Chicago-Minneapolis lines are in no way responsible for the rates from Chicago east-bound on shipments originating at Minneapolis. If the rates from Chicago eastward are manipulated, the Soo-Pacific system has a right to meet such changes even if the rates from the Twin Cities to Chicago have been maintained.¹

There is a broader aspect of the case. East-bound shipments may be sent via the Soo or via Chicago or by the southern lines having their terminus at Newport News. So that any condition affecting the rates of any one of these systems will affect the rates of the others. There is no evidence that the Northern route has been especially aggressive in forcing down rates.²

With reference to the general question of rate cutting, either by the Canadian Pacific or by the Grand Trunk, it may be said that whatever cuts are made, are, in general, made with the acquiescence of American lines. The Grand Trunk has, it is true, an independent line from Chicago to Portland, but by far the greater part of its through business is concerned with the freight haul from Chicago to Buffalo, where it is transferred to American lines. If a cut is made it must be acquiesced in by the American

¹ *Interstate Commerce Commission Reports*, vol. vi. Appendix E, p. 289.

² *Ibid.*, p. 284.

lines forming the through route. The Canadian Pacific is in a similar condition as regards its trade with New England. Its line extends as far as Newport, Vermont. For carriage to Boston it is dependent on American lines. If the east-bound or west-bound rates are cut then it is with the acquiescence of American lines. This cannot be construed as affording the American transportation system a grievance against the Canadian roads. Since the passage of the Interstate Commerce Act the rate policy of the Canadian roads has not been reckless.¹

The objection made, however, is not so much to cuts in the open rates as to rebates. This is a question which is difficult of investigation. The statements advanced against the Canadian roads are simply statements. Taking the Grand Trunk, for example, it has been suggested that when through passenger rates are given from Detroit, there is nothing to prevent the railway from offering much lower rates if the journey begins from the Canadian side of the Detroit river. In this way the regulative features of the Interstate Commerce Act might be evaded. But it was not charged that this had been done, it was simply suggested that it could be done.² No direct proof of the granting of rebates is made; the general position advanced is that the "Canadian railroads have abundant opportunities for doing things contrary to the law without being punished."³

Another phase of the complaint may now be referred to, namely the question of obedience to the "long and short haul" clause. The Canadian roads can, it is asserted, reduce rates in competition with American roads without at the same time reducing their local rates, while a similar reduction by an American road would also mean a reduction of local rates under the clause referred to.⁴

¹ Testimony of Mr. H. B. Goodwin, President of the Boston Executive Business Association, before Committee on Transportation Interests of the United States and Canada, p. 392.

² *Report of Committee on Transportation Interests*, etc., p. 7.

³ Evidence of Mr. King before the Committee on Transportation, etc., p. 46.

⁴ *Ibid.*, evidence of Mr. Fink, p. 18; see also evidence of Mr. Depew, p. 61.

Both the Canadian Pacific and the Grand Trunk have taken the position that they consider that the law regulating commerce applies to them and their transportation—interstate and international—not only to points in the United States but to all points through Canada in which they are engaged in traffic in every particular.¹ This general position seems almost too sweeping, but evidence in favor of it may be obtained. Mr. Fink stated that, while obedience to the interstate commerce law was optional on the part of the Grand Trunk, it was to its interest to obey it. It could not afford to engage in rate wars, and he anticipated no more trouble from the Grand Trunk than from the American lines.² The Grand Trunk officials have tried to live up fairly to the law.³ The Canadian roads have in their dealings observed the provisions of the law.⁴ These are only a few of the statements that might be quoted; and they are quite definite. On the other hand we have the assumption that because the Canadian roads are free to do certain things, they will do them.⁵

Even if it is admitted, however that the Canadian roads do indulge in the practices alleged this is no conclusive argument against their participating in the transit trade. The records of the Interstate Commerce Commission are replete with trials of just such violations, on the part of the American lines, as the Canadian roads are charged with. The Canadian roads have not been immaculate—the records show that. There is no doubt that the conditions in connection with the trade in the northwest of Canada, for example, have presented the anomalies forbidden under “long and short haul” clause. There have been many complaints with reference to the disproportion between through and local rates in various sections of Canada. But when all this is admitted the question that is to be faced is not whether these

¹ *Interstate Commerce Commission Reports*, vol. vi. pp. 63, 64. Mr. Hickson, of the Grand Trunk, before Committee on Transportation Interests, etc., pp. 94–97. Mr. Van Horne before same committee, pp. 247, 248.

² MR. FINK, *Report of the Committee on Transportation Interests*, pp. 19 and 24.

³ Mr. Depew, *ibid.*, p. 62.

⁴ *Ibid.*, Mr. R. G. Butler of the Wabash, p. 559.

⁵ *Ibid.*, Mr. King of the Erie, pp. 47–48.

grievances exists, but whether any adequate means of rectifying them exists. A committee intrusted with the investigation of this matter concluded that no effective regulation of the trade carried by the Canadian lines was possible under the Interstate Commerce Act, and that the American roads were thereby placed at a disadvantage.¹ A suggestion was made that the Canadian roads engaging in the transit trade should be placed under a license system.² This proposal has found considerable favor. The Interstate Commerce Commission favored this in 1892.³ The suggestion was also made that the United States government might exert pressure to induce the Canadian government to repeal the clauses in its Railway Act which appeared to encourage evasion of the provisions of the Interstate Commerce Act.⁴ Last fall when the International Commission was meeting in Quebec, representatives of the Atchison, Topeka and Sante Fé, who appeared on behalf of the trans-continental lines, proposed that the Canadian lines should be placed under a license system and that thereafter all disputes regarding the bonding question might be settled. The merchants of New England protested strenuously against such a proposal. The proposition, so far as the American lines are concerned, is somewhat disingenuous. The Canadian roads, if admitted on license, would be participants in the trade on sufferance. The American road if it violates the law would be subject to a fine; the Canadian road under similar circumstances would be subject to revocation of its license and exclusion from the trade. The exercise of such power is claimed to be justified under the decisions on the power of congress to regulate commerce—the power to regulate carrying with it the power to impose the conditions on which the trade between the citizens of the United States and the subjects of the foreign countries, or between citizens of the several states, shall be carried on.⁵

¹ *Report of the Committee on Transportation Relations*, etc., p. 54.

² *Ibid.*, p. 55.

³ *Interstate Commerce Commission Reports*, vol. vi. p. 63.

⁴ *Ibid.*, p. 62.

⁵ This is based on *Mobile vs. Kimball*, 102 U. S. 691.

But this assumes that no power to regulate the Canadian carriers is possessed under the Act to Regulate Commerce. Some consideration of its provisions will bear on the matter. The provisions of the act apply *inter alia* to common carriers engaged in the transportation of passengers or property

. . . . from any place in the United States to an adjacent foreign country or from any place in the United States through a foreign country to any other place in the United States or shipped from a foreign country to any place in the United States, and carried to such place from a port of entry either in the United States or adjacent foreign country.¹

The through rate on freight shipped from the United States through a foreign country into the United States must be published; any departure from this provision will subject the traffic to payment of duty on entering the United States.² The prohibition of rebates is, in terms of the act, applicable to all the roads coming under the operation of the supervision of the act.³ Evidence can be taken by deposition in case the witness is in a foreign country.⁴ As far as the wording of the act is concerned it is applicable to all roads engaged in the transit trade.

The power of the commission in the matter of rebates has been asserted. When the Grand Trunk was allowing a lower rate on coal sent from the United States to Canada than the open rate, the commission decided that the provisions of the act applied to foreign as well as to domestic common carriers engaged in the transportation of passengers or property for a continuous passage or shipment from a place in the United States to a place in an adjacent foreign country.⁵ It is claimed that the Canadian roads have an advantage in the lower open rate they can afford to charge; this claim is given especial currency in connection with the discussion of Canadian Pacific rates.

¹ Preamble to the act.

² *Ibid.*, § 6.

³ *Ibid.*, § 2.

⁴ *Ibid.*, § 12.

⁵ *In re* investigation of the acts and doings of the Grand Trunk Railway of Canada in the transportation of traffic from the United States into Canada. *Interstate Commerce Commission Reports, Decisions*, vol. iii. p. 89, April 18, 1889.

This is not an argument against the Canadian carriers, but an indication of the defects in the act itself, since no power of regulation, in regard to maximum and minimum rates, is provided for. And, although the matter has been brought before the attention of congress, nothing has been done.¹

The next objection is in connection with the "long and short haul" clause. A strict construction of the act would declare this provision applicable to the Canadian carrier. But the commission has chosen to regard the matter in another way. It will be observed that the provision is not rigid. The commission may, in special cases, after an investigation, authorize a departure from this provision. The commission has not asserted the full power it possesses. It has assumed that the Canadian carrier is not subject to the jurisdiction of the commission under this clause. But this does not leave the American roads without redress. In an early decision the commission expressed the opinion that the competition in the domestic transit trade, of Canadian roads with the American roads, created a state of circumstances which permitted the American roads to disregard this clause. The railway was thus left free to act, and it was thought that this would insure that no extensive rate-cutting would be indulged in by the Canadian roads.² The commission soon found that it would not do to give the American roads such a discretionary right, since they would tend to abuse the privilege. As the matter stands now, the commission is ready to suspend the operation of the clause whenever it is satisfied that such action is necessary. A couple of examples bearing on this matter may be sighted. During the period of the World's Fair, the Rome, Watertown and Ogdensburg was allowed to depart from the clause in order to meet the competition of Canadian roads.³ During 1897 the Great Northern railway and eighteen other

¹ See *I. C. C. R.*, vol. xi. pp. 142-143. This defect hampers the work of the commission as regards the regulation of the distinctly American lines.

² *Interstate Commerce Commission Report*, vol. i. p. 80. In the matter of the petition of the Louisville and Nashville *et al.*

³ *Ibid.*, vol. vi. p. 328.

lines, including the Grand Trunk, were allowed to disregard this clause as regards the traffic between eastern points and the Kootenai during the period March to December 1897.¹ The necessity of care in granting this privilege is evidenced in the proviso of the commission that the lines were not to be allowed to cut below the Canadian Pacific.²

The attitude of the commission on the question of its powers in regard to rebates is at variance with the attitude it has taken concerning its regulative powers under the "long and short haul" clause. But even when the commission's position is accepted, it is seen that the American roads have a sure redress in case the Canadian roads do violate this clause. The fact that the commission has seen fit to reconsider its decision as to the discretionary right of the railways affected, is to be taken into consideration in connection with the claim that the American roads are subjected to an undue competition subversive of their interests.

Another point requires passing reference. Objection is made to the rates charged by the Canadian Pacific on shipments originating in China or Japan and brought into the eastern states via Vancouver. It must be remembered, however, that this works no hardship on the American carrier. Since the decision by the supreme court in the "Import Rate" case, the commission has no effective regulating power in regard to foreign traffic brought in over American roads, the initial part of the journey having been made on the sea, and on which a through rate has been given at the place of origin. At present, when the rate situation is more stable than it has been for a considerable time, the import rates are essentially unsteady. Under this decision the "long and short haul" clause may be violated in regard to this traffic and the commission is powerless.³ The Canadian road in such traffic has no advantage which is not also possessed by the American road.

¹ *Ibid.*, vol. xi. p. 101.

² *Ibid.*, *loc. cit.*

³ *Ibid.*, vol. xi. p. 58, and vol. x. pp. 6-16.

The Interstate Commerce Act was the result of a compromise; and many of the powers the commission was supposed to possess have been declared, by judicial interpretation, not to belong to it. The defects which have rendered it difficult to apply its provisions to the American roads have brought up the same difficulties in the case of the Canadian roads. A careful scrutiny of the records of the commission will indicate the obstacles which have from time to time been interposed by the American roads. A careful consideration of the evidence, leaving aside mere hypothesis, will show that, on the whole, the Canadian roads, while not exempt from blame, have been as obedient, if not more so, to the provisions of the act as the American roads.

V.

There has been a misunderstanding of various phases of the Canadian railway policy; and there has been a misconception as to the significance of the subsidy policy of Canada. The transportation policy of Canada has been, in the first place, national—national development has been the objective point consistently held in view.¹ At times, in the endeavor to obtain rapid railway construction, with its attendant national expansion, burdens have been assumed that might well have strained the credit of a wealthier nation. The connection with the railway system of the United States and with its traffic, which is in part the outcome of Canada's geographical situation, was not the reason which led to the development of the subsidy policy of the Dominion. It is only a partial view of the case which asserts that the main purpose steadfastly held in view by Canada has been of intent inimical to the interests of the United States.²

¹See, in this connection, the debates in the Canadian parliament in connection with the chartering of the Canadian Pacific.

²For examples of the view criticised above see *Executive Documents No. 96*, XXXV Congress, first session, and evidence of Mr. Nimmo before the Committee on Relations with Canada, pp. 893-895, 909, and 913. Mr. Nimmo imports into the discussion a large number of matters not germane to the topic. Many examples of a similar point of view will be found in the testimony submitted to the Select Committee on Relations with Canada.

It has been assumed that two sections of the Canadian Railway Act afford proof positive that the railway policy of Canada is designed to give Canadian roads an underhand advantage over American roads.¹ Section 226 of the Railway Act² reads:

The company in fixing . . . the tolls . . . shall, except in respect to through traffic to or from the United States, adopt and conform to any uniform classification of freight which the Governor in Council . . . prescribes.

Such a careful body as the Interstate Commerce Commission has construed this as an incitation to encroachments on American business; Mr. Nimmo has likewise acquiesced in this opinion. But the significance of the section is by no means sinister. The classification in use in Canada differs from the classifications in use in the United States. The section simply provides that in regard to through American traffic the Canadian roads shall be amenable to the classification regulations existing in the United States. Section 232 after prohibiting local discriminations proceeds:

but no discrimination between localities, which by reason of competition by water or railway it is necessary to make to secure traffic shall be deemed to be unjust or partial.

It must be noted that while the exemption under the former clause applies to the United States the exemption under this clause is general in nature. But it has been assumed by critics that this clause is intended to apply especially to the United States. It has been recognized that the Canadian lines handling American freight have to meet American rates.³ In so far as this section is applicable to this class of trade it recognizes that the conditions determining the rates on through American traffic differ essentially from those existing in the case of Canadian traffic. A new phase of competition is brought into the field.⁴ In essence

¹ *Interstate Commerce Commission Reports*, vol. vi. p. 59. See also Mr. Nimmo's statement before the Committee on Relations with Canada, p. 897.

² 51 Vic. chap. 29. "An Act Respecting Railways."

³ Speech of Sir Charles Tupper on Hon. Dalton McCarthy's Railway Commission Bill, *Debates of Parliament*, 1881, p. 931.

⁴ *Report of the Canadian Royal Commission on Railways*, p. 9.

the clause is a recognition of a fact rather than an incitation to a course of action. The clause as it stands does, however, give the Canadian people cause of complaint because it affords an opportunity for discriminating against Canadian traffic.¹

An especial stress has been laid on the part played by the Canadian Pacific in the Canadian transportation system; and it has been suggested that the subsidies granted to it were proof of some sinister design subversive of American interests. It has further been claimed that it is the outgrowth of an anti-American policy while the other Canadian systems participating in the traffic are the outgrowth of commercial needs.² Some very wild estimates of the assistance rendered to the Canadian Pacific by the Dominion have been made.³ The attack upon it has proceeded from the assumption that there is an identity of interest in a policy intentionally inimical to the United States; it is assumed that the railway has been the *alter ego* of the government.⁴ It is true that lavish, unduly lavish, aid was extended to the enterprise; but this is no justification for statements out of all proportions to the aid actually received.

The geographical position of Canada, its lateral extent, the scattered population, all make the transportation problem of supreme interest. The transportation problem has been, and is, the overshadowing problem of Canada. The Canadian Pacific, as was the Intercolonial before it, was part of the price paid for national integration. The Grand Trunk, which has been regarded as purely commercial in its origin, was as strictly national in its

¹ See in this connection the opinions of Counsel for the Grand Trunk Railway and the Canadian Pacific Railway in the case before the Railway Committee of the Privy Council with reference to discriminations in oil rates February 23, 1899, reported in the *Montreal Witness* of the following day. The Railway Committee has recently rectified this defect by declaring its jurisdiction over the portion of the through rate which is concerned with the carriage, of goods destined for Canadian consumption, from the boundary to the terminal point.

² Mr. Nimmo before Committee on Relations with Canada, p. 904.

³ Statement of Mr. Nimmo *ut supra*, pp. 896, 897. The statement is by no means carefully drawn up, and is essentially misleading in its arrangement.

⁴ Mr. Nimmo *ut supra*, p. 908. See also *Interstate Commerce Commission Reports*, vol. vi. p. 4.

origin as the Canadian Pacific. It was the outcome of the conscious policy of national integration, through railway extension, which sprang into existence in connection with the Halifax and Quebec project.¹ The transportation system of Canada is anti-American in its implications only if the development of Canada is likewise anti-American.

Just what transportation extension means to Canada may be gauged from the governmental aid extended. The policy of subsidizing did not spring into existence with the chartering of the Canadian Pacific. In 1867, when the Dominion of Canada was formed, there had been invested in railway enterprise \$161,-308,296² and of this 36 per cent. had been supplied by the various provinces and municipalities.³ The Grand Trunk had been aided to the extent of \$25,607,393 this sum including arrears of interest.⁴ Since confederation there has been expended in railway construction, cash subsidies, and land subsidies by the Dominion, the provinces, and municipalities approximately 265 million dollars.⁵ The railway system of Canada has a total capitalization of \$967,626,768.⁶ The addition of the amount expended on the Intercolonial will bring the total capitalization up to \$1,023,042,925.⁷ That is, there has been expended by the nation 26 per cent. of the total capital invested. The contribu-

¹ This has influenced the attitude of the English investors who have claimed that the government of the Canadas was pledged to support the railway; and that the statement in the prospectus that a dividend of 12 per cent. would be earned was a pledge of the government to guarantee such a dividend. See article in the *London Economist*, October 6, 1860, "Railway Enterprise in Canada."

² *Sessional Papers of Canada*, 1868, No. 73.

³ In all, there had been expended by the various provinces and municipalities \$58,111,556. This is based on a detailed consideration of the various loan acts and documents.

⁴ *Sessional Papers of Canada*, 1868, No. 61.

⁵ See *Report of the Department of Railways and Canals*, 1897, part 6, p. 80 and part 7 of *Report of 1895*, p. 6. The value of the land subsidies has been estimated at \$1.00 per acre.

⁶ Summary statement of capital for 1897. *Report of the Department of Railways and Canals*.

⁷ *Ibid.*, 1897, part 6, p. 80.

tion of the Dominion Government alone amounts to 20 per cent. of the capital invested.

It has been attempted to draw a sharp distinction between the eastern transit trade and the western transit trade. The eastern transit trade is justified, it is claimed, by geographical conditions; while on the other hand the arrangement of the western territory presents no such necessity.¹ The Canadian lines participating in the eastern domestic transit trade and foreign transit trade would have a legitimate ground for the exercise of their privilege while the Canadian Pacific would not.

In the transcontinental traffic of the Canadian Pacific two divisions have to be considered: the state-to-state traffic, which is of minor importance, and the foreign transit trade. To participate in the state-to-state traffic between the Pacific coast and the East a steamship connection between San Francisco and Vancouver was obtained in 1885.² In 1886 the railroad applied for the privileges of the transit trade; the state-to-state traffic of this nature, by water and rail route, was in view of the abrogation of Article 30 of the Treaty of Washington dependent on the law existing at the time the treaty was entered into.³ The application was granted by Secretary Manning. But the foreign transit trade through Canada was dependent on the reciprocal obligations assumed under the twenty-ninth article of the treaty. A practice of convenience has grown up of allowing cars containing Asiatic merchandise to enter the United States without examination if they have been sealed by United States consular officials in British Columbia. This was conceded in the interest of American shippers.

The position of Mr. Nimmo that this trade is not covered by the Treaty of Washington is interesting but not conclusive. The inference from his position would seem to be that the conditions connected with the Canadian Pacific were not anticipated

¹ Mr. Nimmo before Committee on Relations with Canada, p. 902. See also *Interstate Commerce Commission Reports*, vol. vi. p. 58.

² *Canadian Pacific Railway Report*, 1885, p. 16.

³ See § 3006 of chap. 248 *Revised Statutes* of 1866.

by the American commissioners in 1871,¹ and that therefore the treaty provisions are not applicable.

An earlier section has shown that the traffic is advantageous both to the Canadian lines and to a number of the American lines. Even a limited choice from the very extended list of material available will show that it is extremely advantageous to the various sections of the United States. The shipper's interest in the question has not been kept sufficiently in the foreground.

The commercial interests of the eastern states are bound up with the retention of the bonding system, both as regards the domestic transit trade and the foreign transit trade. In the rate wars of 1875-6 the commercial interests of Boston were dependent on the Grand Trunk. Nominally, the war was intended to meet Grand Trunk competition; in reality it was the outcome of a struggle between New York on the one hand and Baltimore and Philadelphia on the other.² Through the existence of the Grand Trunk, Massachusetts and Boston, which would otherwise have been helpless, were ensured the benefit of the natural and geographical advantages of their position.³ The Grand Trunk has had a great deal to do with making Boston a competitive point.⁴ Before Canadian lines were established it was practically impossible for shippers to Boston to obtain through rates from western points.⁵ Were it not for the existence of the Canadian lines Boston would be side-tracked.⁶ Boston is interested not only

¹ Evidence of Mr. Nimmo before the Committee on Relations with Canada, p. 902.

² *Report of the Massachusetts Board of Railroad Commissioners*, 1876, p. 67. *Ibid.*, 1877, pp. 51-52.

³ *Ibid.*, 1877, p. 58.

⁴ Evidence of W. H. Lincoln before the Committee on Relations with Canada, p. 361. See also the evidence submitted by representatives of Boston before the Committee on Transportation Interests of the United States and Canada. A summary of their evidence will be found in the report proper.

⁵ Evidence of H. P. Hibbard before the Committee on Relations with Canada, pp. 562-564.

⁶ General statements on this matter will be found in the *Report of the Massachusetts Board of Railroad Commissioners*, 1890, p. 42, and in an article by Senator Hoar in

in the domestic transit trade but also in the Canadian export trade which is handled via Boston. In the domestic transit trade between Ontario and the Maritime provinces Boston is a way point.

The interest of Maine in the maintenance of the bonding system is equally great. When the system was threatened in 1888, the Portland Board of Trade addressed a remonstrance to Congress.¹ The geographical situation of Maine is such that it must be connected with the West through Canada.² It is to the advantage of Bangor to have a connection through the Canadian Pacific Short Line and the Canadian Pacific system with the West, since a shorter line is thereby obtained.³

The interest of Detroit in the maintenance of the system is similar. The abrogation of the bonding system would impose upon the citizens of Michigan a burden destructive of their material interests.⁴ It would also be disastrous to the interests of the railway systems of Michigan to interfere with the bonding system.⁵

The Canadian roads have protected Chicago's interests. Their competition has caused the American roads to discontinue the unjust arbitrariness charged by them on shipments to New England points.⁶ Any restriction of the bonding system would be unacceptable by the West.⁷ The opposition to the system has come from the lines competing with the Canadian lines, not from the shippers.⁸

The Independent for September 3, 1890. A short speech made by Senator Hoar on the Alaska Land Bill is also of interest in this connection — *Congressional Record*, March 2, 1898, pp. 2370, 2371. Much corroborative detail will be found in the testimony of the Boston representatives before the Committees on Relations with Canada, and on Transportation Interests of the United States and Canada.

¹ *Senate Journal*, p. 429, March 7, 1888.

² S. W. Thaxter before Committee on Transportation Interests, etc., p. 415.

³ Chas. P. Stetson, *ibid.*, pp. 424-427.

⁴ D. M. Ferry, *ibid.*, p. 522.

⁵ D. Edwards, Assistant General Manager Flint & Père Marquette Railroad, *ibid.*, p. 540.

⁶ Statement of Mr. G. F. Stone, Secretary of the Chicago Board of Trade, before the Committee on Transportation Interests, etc., p. 606.

⁷ *Ibid.*, p. 607.

⁸ *Ibid.*, testimony of Mr. W. J. Pope, member of the Board of Trade of Chicago, p. 634.

The Chamber of Commerce of Sault Ste. Marie, Mich., protested in 1889 against any legislation which would interfere with the bonding system.¹ When the Soo lines were under construction it was stated that these lines would, in connection with the Canadian Pacific, afford Minnesota and Dakota, and a large part of Wisconsin, the shortest and cheapest route to tidewater.² The statements following will show how the Northwest appreciates this. The charter of the Duluth, South Shore, and Atlantic is Duluth's declaration of commercial independence.³ To the men who projected and built the Soo road the producers and consumers of the West and East owe a debt of gratitude.⁴ Mr. E. V. Smalley testified that anything that would cripple the Soo lines would be inimical to the interests of Minneapolis.⁵ Last year when the Alaska Land Bill was under consideration, Senator Nelson of Minnesota stated that any measures interfering with the bonding privileges were aimed at the interests of the farmers of the Northwest.⁶

The Canadian Pacific has exercised on the Pacific slope an influence much greater than its carriage of state-to-state tonnage would apparently warrant. It has been described as the only thing that stands between the people of the Pacific slope and absolute corporate rule.⁷ It protects the people from the arbitrary operations of the American transcontinental systems.⁸ Before the appearance of the Canadian Pacific the service in

¹ *Transportation Interests of the United States and Canada*, p. 548. Statement in evidence of Mr. H. W. Seymour.

² *Canadian Pacific Railway Report*, 1885, p. 14.

³ *Duluth Trade and Commerce Report*, 1887, pp. 27 and 37.

⁴ *Fifth Annual Report of Trade and Commerce*, Minneapolis, 1887, p. 147. See also *ibid.*, 1886, p. 129.

⁵ Testimony before Committee on Relations with Canada, pp. 415-416.

⁶ Speech of Senator Nelson, March 2, 1898. I quote from the *Chicago Times-Herald* report, since the speech is not contained in the *Congressional Record*.

⁷ Letter of Mr. John I. McGilvra, of Seattle. Senate Committee on Relations with Canada, pp. 1153-4.

⁸ Statement of Mr. John I. McGilvra, *ut supra*.

Washington was very poor.¹ The people of Seattle diverted freight to the Canadian Pacific for self-protection.²

The advantage of the domestic transit trade is admitted by all except a few extremists. But a further economic argument must be remembered in the case of the Canadian Pacific. One especial advantage it has over its American competitors is attributable to its unified control. While the American lines have been higgling over trade divisions, the Canadian Pacific has been able to form quick conclusions. Its steamer line has given it direct communication with the Asiatic countries. Its centralized management gives opportunities for economies which do not exist in many of the other lines.³ The advantage in point of lessened capitalization, attributable to government aid, must also be remembered. The deductions made from this, however, are not always legitimate, since many of the American lines complaining of the competition are claiming the right to earn a dividend on a very large percentage of fictitious capitalization, and were themselves subsidized.

A common method of attack upon the maintenance of the bonding system proceeds from the assumption that it is of value to Canada, but not to the United States. For example, it has been estimated that the domestic transit trade represents a diversion of freight charges from American roads of about 21 million dollars annually,⁴ and the assumption is made that if the bonding system were abrogated this would mean an added gain to American roads. But this assumption is fallacious. At present approximately two fifths—the proportion has been greater—of this trade is carried by the Michigan Central. To interfere

¹Testimony of Mr. G. B. Adair before Committee on Relations with Canada, p. 398.

²*Ibid.*

³For example, the Canadian Pacific owns its own steamers, elevators, sleeping cars, and telegraph system. The net receipts from these items in the period 1891 to 1896 amounted to \$6,252,652, during the same period the total dividends paid, amounted to 13.7 million dollars.

⁴Speech of Senator Elkins on the Alaska Land Bill, March, 2, 1898, *Congressional Record Appendix*, p. 334. He estimates the freight charges on each car at \$50.

with the system would simply mean that some other American road would gain at the expense of the Michigan Central. Then, again, the roads which at present find it advantageous to utilize the Grand Trunk as a link in a through route would be forced to transfer their traffic to American lines. The Wabash, since its recent leasing arrangement with the Grand Trunk, is also interested in maintaining the *status quo*. The question resolves itself into a contest between the self-interest of the different American systems.

Another assumption that is manifestly erroneous is that the Canadian foreign transit trade represents an especial privilege given to Canada in return for which no recompense is received. Leaving aside all question of the domestic transit trade as a more than sufficient *quid pro quo*, it must be remembered that the eastern American carriers are participants, and greatly interested in this trade. It is further assumed that this phase of the bonding question is absolutely essential to Canada as regards its import and export trade. But this is an extreme view of the case. If the system were abrogated and the usual duties imposed, this would simply mean that the Canadian imports would be carried over the Intercolonial. An interference with the bonding system would mean common loss.

The American carriers are interested in Canadian trade. The northern lines running near the boundary are competitors for the British Columbia trade. The recent discussion of the Kettle River Valley Railway project is an indication of a desire, on the part of American roads, to tap the British Columbia mineral trade. The line, if constructed, will furnish an alternate route between the West and the East. The Northern Pacific taps the Manitoba trade. At least 80 per cent. of the grain of the Canadian northwest finds its way from Fort William to Buffalo by lake, and thence to New York by rail or by canal for export. The traffic between eastern Canada and the Maritime Provinces is carried on, in considerable degree, through the intervention of American transportation systems. The shippers and railways on both sides of the boundary are interested in the maintenance of the system. If any change were made the gain accruing to some

American railroads would be more than counterbalanced by the loss coming to other American roads and to the shipping class throughout the North. The bonding system, as it exists today, rests not upon sentiment or one-sided favor but on common interest. It is absolutely essential, in the interests of both nations, that a statesmanlike policy, and not a policy of "pin pricks," be manifested.

SIMON J. McLEAN,

UNIVERSITY OF ARKANSAS.